

**REPORT OF THE AUDIT OF THE
HICKMAN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Greg Pruitt, Hickman County Judge/Executive

Honorable J.W. Moran, Hickman County Sheriff

Members of the Hickman County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Hickman County Sheriff's Settlement - 2004 Taxes as of April 22, 2005.

We engaged Tichenor & Associates, LLP, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Hickman County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HICKMAN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005

Tichenor & Associates, LLP has completed the audit of the Sheriff's Settlement - 2004 Taxes for Hickman County Sheriff as of April 22, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,337,998 for the districts for 2004 taxes, retaining commissions of \$54,325 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,288,630 to the districts for 2004 taxes. Refunds of \$4,957 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were not properly insured and collateralized by guaranty bond.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2004 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	12

TICHENOR & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Greg Pruitt, Hickman County Judge/Executive

Honorable J.W. Moran, Hickman County Sheriff

Members of the Hickman County Fiscal Court

Independent Auditor's Report

We have audited the Hickman County Sheriff's Settlement - 2004 Taxes as of April 22, 2005. This tax settlement is the responsibility of the Hickman County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hickman County Sheriff's taxes charged, credited, and paid as of April 22, 2005, in conformity with the modified cash basis of accounting.

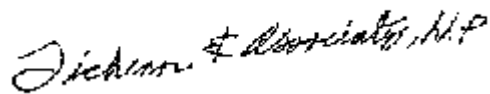
In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2005, on our consideration of Hickman County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Greg Pruitt, Hickman County Judge/Executive
Honorable J.W. Moran, Hickman County Sheriff
Members of the Hickman County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
November 15, 2005

HICKMAN COUNTY
J.W. MORAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 22, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 159,017	\$ 144,986	\$ 559,845	\$ 172,159
Tangible Personal Property	8,423	9,904	31,550	18,866
Intangible Personal Property				7,939
Fire Protection	590			
Increases Through Exonerations	13	20	46	14
Franchise Corporation	49,728	45,953	180,529	
Additional Billings	25	39	89	28
Clay Reserves	99	71	350	108
Penalties	2,481	1,570	5,579	1,737
Adjusted to Sheriff's Receipt	4	(19)	1	4
Gross Chargeable to Sheriff	<u>\$ 220,380</u>	<u>\$ 202,524</u>	<u>\$ 777,989</u>	<u>\$ 200,855</u>
<u>Credits</u>				
Exonerations	\$ 525	\$ 503	\$ 1,847	\$ 568
Discounts	2,321	2,084	8,171	2,770
Delinquents:				
Real Estate	2,626	3,139	9,244	2,842
Tangible Personal Property	109	118	409	423
Intangible Personal Property				16
Uncollected Franchise	195	242	732	
Adjustment for Franchise Discounts	<u>4,407</u>	<u>3,887</u>	<u>16,572</u>	
Total Credits	<u>\$ 10,183</u>	<u>\$ 9,973</u>	<u>\$ 36,975</u>	<u>\$ 6,619</u>
Taxes Collected	\$ 210,197	\$ 192,551	\$ 741,014	\$ 194,236
Less: Commissions *	<u>9,221</u>	<u>6,920</u>	<u>29,641</u>	<u>8,543</u>
Taxes Due	\$ 200,976	\$ 185,631	\$ 711,373	\$ 185,693
Taxes Paid	<u>201,041</u>	<u>187,175</u>	<u>714,720</u>	<u>185,694</u>
Due Districts or (Refunds) Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (65)</u>	<u>\$ (1,544)</u>	<u>\$ (3,347)</u>	<u>\$ (1)</u>
* and ** See Next Page				

The accompanying notes are an integral part of this financial statement.

HICKMAN COUNTY
 J.W. MORAN, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 April 22, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on		548,116
4% on		741,014
1% on		38,868

** Special Taxing Districts:

Health District	\$	(281)
Extension District		(322)
Soil Cons.		(57)
Clinton Fire		(558)
Columbus Fire		(326)

Due Districts or (Refunds Due Sheriff)	\$	<u>(1,544)</u>
--	----	----------------

HICKMAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 22, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 7, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$164,389 of public funds uninsured and unsecured.

HICKMAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 22, 2005
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 7, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with a Guaranty Bond held by the county official's agent in the county official's name	600,000
Uncollateralized and uninsured	<u>164,389</u>
Total	<u><u>\$ 864,389</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 2004 through April 22, 2005.

Note 4. Interest Income

The Hickman County Sheriff earned \$712 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Hickman County Sheriff collected \$7,087 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Hickman County Sheriff collected \$1,854 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, property is presumed abandoned after three years, after which time it is turned over to the Kentucky State Treasurer in accordance with KRS 393.110. For the 2004 taxes, the Sheriff had \$4,957 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

HICKMAN COUNTY
J.W. MORAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 22, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 7, 2004, \$164,389 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

We never know who will pay their taxes on what day. If we did we would have made sure the pledges would have been covered.

The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports

The Sheriff had receipts in his official tax account during the month of September 2004. We found that the Sheriff did not prepare a monthly report for September until the month of November. KRS 134.300 requires monthly tax reports to be accurate and payments be made by the tenth of each month following the collection of taxes. We recommend the Sheriff prepare accurate and timely tax reports and make payments by the tenth of each month following the collection of taxes.

Sheriff's Response:

There was a small amount collected in September and October, so I (Joye) decided to hold it until November. It was distributed correctly.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options of establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset these internal control weaknesses.

Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.

HICKMAN COUNTY
J.W. MORAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 22, 2005
(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

The Sheriff should periodically, agree daily tax collection totals to receipts ledger and deposit slip and agree monthly tax reports to receipts ledger. The Sheriff should document this review by initialing and dating the bank deposit, monthly tax reports and receipts ledger.

Two people should sign all disbursement checks, one being the Sheriff. The Sheriff should periodically examine tax distributions prepared by another employee. The Sheriff should document this review by initialing and dating the tax distributions sheets.

Sheriff's Response:

As stated, we are a small department we handle the situation the best we can.

PRIOR YEAR:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$582,130 To Protect Deposits

This has not been corrected and will be repeated.

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This issue was corrected during 2004 and is not a current year comment or recommendation.

The Sheriff's Office Lacks Adequate Segregation Of Duties

This issue was not corrected in 2004 and remains a recommendation.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

The Honorable Greg Pruitt, Hickman County Judge/Executive
Honorable J.W. Moran, Hickman County Sheriff
Members of the Hickman County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Hickman County Sheriff's Settlement - 2004 Taxes as of April 22, 2005, and have issued our report thereon dated November 15, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hickman County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

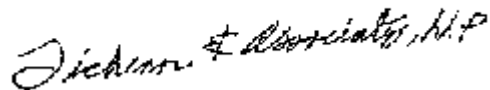
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hickman County Sheriff's Settlement -2004 Taxes as of April 22, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Tichenor & Associates, LLP

Audit fieldwork completed -
November 15, 2005

